

January 20, 2010

TO: Minerals Regulatory Program - File M/047/0010

THRU: Dana Dean, Associate Director – Mining DD initial

THRU: Paul B. Baker, Mining Program Coordinator PBB initial

THRU: Leslie Heppler, Environmental Scientist LH initial

FROM: John Rogers, Environmental Scientist, JRK initial

SUBJECT: Annual financial analysis of American Gilsonite for self-bonding requirements, M/047/0010, Uintah County, Utah

On December 21, 2009 I met with Steve Schneider of the Division of Oil, Gas and Mining to review the procedure for the annual evaluation of the self-bonding of American Gilsonite Company (AGC). From my analysis of the unaudited September 2009 balance sheet, I calculated the various financial ratios that are required by the self-bonding worksheet. The calculated ratios for 2008 and 2009 are presented in the following table:

American Gilsonite self bonding worksheet as of September 2009		
	Year 2009	Year 2008
current assets / current liabilities 1.2 or greater	5.7	2.2
total liabilities / net worth 2.5 times or less	1.2	2.1
tangible net worth (> \$10 million) [net worth - intangibles such as goodwill]	\$ 7,315,000	\$ (11,568,000)
fixed assets net of depreciation > \$20 million	\$ 38,278,000	\$ 30,249,000
self-bond request / tangible net worth max = 25%	0.04	(0.02)

The tangible net worth in 2008 is a concern. My research indicates the discrepancy is due to ACG's change in ownership in 2008 and a large assignment of assets to "goodwill". In 2009 the tangible net worth rebounded and shows a positive trend. The tangible net worth value is \$7,315,000 (Sept 2009) and is approaching the \$10 million dollar minimum threshold. With the current ratio at 5.7, it is well above the needed level of 1.2 and indicates a high level of asset liquidity. The total liability to net worth ratio is 1.2 and indicates a conservative approach to debt management and is well below the 2.5 ratio limit. The fixed assets (net of depreciation) is \$38,278,000 as of September 2009, which is significantly above the required threshold of \$20 million.

My recommendation is that the financial ratio analysis indicates that AGC is managed conservatively and meets the criteria presented in the self-bonding worksheet. I believe they can continue with the payment as outlined: \$70,000 on September 15, 2010 and the final payment on June 15, 2011 to meet the requirement as directed by the Board. This will bring a total amount of \$281,000 that will be escrowed with Advance Title in Vernal, Utah as of June 15, 2011.

The summary of the bond conditions at the present and forecasted out to June 15, 2011 are presented in the following table:

American Gilsonite Bonding	Currently as of 1/1/2010	Forecasted to 6/15/2011
Bond with Travelers Property casualty Co.	\$ 324,900	\$ 324,900
CD deposit	\$ 189,100	\$ 189,100
Escrowed funds at Advanced Title Co. Vernal, UT	\$ 141,000	\$ 281,000
Total	\$ 655,000	\$ 795,000

My conclusion is that AGC is in good standing in respect to the self-bonding agreement that the Board has given them. The payments have been timely and the current financial condition as represented by the September 2009 balance sheet indicates that there should be no issue with AGC meeting the future payments as required by the Board.

Advanced Title

From: "Wells Fargo Event Messaging Admin" <ofsrep.ceoemigw@wellsfargo.com>
To: <advancetitle@easilink.com>
Sent: Monday, December 14, 2009 4:30 AM
Subject: Incoming Wire -- CEO Treasury Information Reporting Event (Notification ID: 348-2556403)

Commercial Electronic Office (CEO) Portal Treasury Information Reporting Event: Incoming Wire

Dear Julia Brakey,
Wells Fargo has received one or more wire transfers for your account(s).

Date/Time Stamp: 12/14/2009 03:23 AM PT
Credit Account Number: XXXXXX-088
Credit Account Name: ADVANCED TITLE CO INC
Wire Amount: 70,000.00 USD
Originating Party Name: AMERICAN GILSONITE COMPANY
Value Date: 12/14/2009
Fed/SWIFT Confirmation Number: N/A

#11562

For more information about this event, please sign on to the CEO portal.

Event Message ID: 348-6996133

To make changes to your Event Messaging setup: In the Message Log, select Edit Message Preferences. Or from the CEO portal, select Event Messaging in the left navigation bar.

Contact your customer service officer with questions, or call toll free 1-800-AT-WELLS (1-800-289-3557), option 5, between 6:00 am and 6:00 pm Pacific Time, Monday through Friday. Please have the Event Messaging ID available when you call.

You received this automated email because you subscribe to the CEO portal Event Messaging service. Please do not reply to this email; this mailbox is only for delivery of Event Messaging notices. To ensure you receive these notices, add ofsrep_qa.ceoemigw@wellsfargo.com to your address book.

Receipt of 12/14/2009 \$70,000 payment
from American Gilsonite to escrow account at
Advanced Title.

12/14/2009

John Rogers - American Gilsonite self-bonding

From: "Doug"
To:
Date: 12/30/2009 3:29 PM
Subject: American Gilsonite self-bonding
CC: ""Stevens, Ted"" , ""Stuart Green""

John

Per our conversation this afternoon, this is to confirm that American Gilsonite has deposited with Advanced Title in Vernal, Utah the following funds pursuant to the self-bonding agreement with the Utah Division of Oil, Gas and Mining.

Initial payment on April 29, 2009 of \$71,000

Second payment on December 14, 2009 of \$70,000

You are correct that we are making payment every nine months, per the agreement with the Board. We anticipate making the third payment on September 15, 2010 and the fourth payment of June 15, 2011.

I misspoke on the timing when I spoke to you on the phone.

Thanks so much.

Best regards,

Doug Maughan

Douglas R. Maughan
Chief Financial Officer
American Gilsonite Company
29950 South Bonanza Highway
Bonanza, UT 84008
Phone 435-781-4534
Fax 435-789-1956

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American Gilsonite Company

Bonanza Minesite
29950 South Bonanza Highway
Bonanza Utah 84008 • Phone (435) 789-1921 • Fax (435) 789-1956

December 17, 2009

Utah Division of Oil, Gas and Mining
1594 West North Temple Street
Salt Lake City, UT 84116

Att: Paul Baker

Dear Mr. Baker

Please find enclosed a copy of the internal financial statements for American Gilsonite Company as of September 30, 2009 and for the period then ended as required by our self-bonding agreement with the Board. Please note that these statements have been prepared by the Company and have not been audited by an independent auditing firm.

You will note that our financial condition continue to be very healthy, our business profitable and we are able to meet all our financial and other obligations timely.

If you have any questions, please don't hesitate to give me a call at 435-781-4534.

Best regards,

A handwritten signature in black ink that reads "Douglas R. Maughan CPA". The signature is written in a cursive style.

Douglas R. Maughan, CPA
Chief Financial Officer

RECEIVED

DEC 21 2009

DIV. OF OIL, GAS & MINING

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DEC 21 2009
DIV. OF OIL, GAS & MINING

Mine Name _____
Permit No. _____
Date _____
Prepared by _____

SELF-BONDING QUALIFICATION WORKSHEET

The Division considers the following information to be important when it makes a recommendation to the Board for self-bonding. The applicant should complete this worksheet and explain any variances from the suggested criteria and provide additional information relevant to its qualifications for self-bonding pursuant to Utah Code 40-8-14(3).

Applicant should meet the following criteria for two prior years and the recent month:

	Year 2009	Year 2008	Mo/Yr
A. Current Assets/Current Liabilities (1.2 times or greater)	$\frac{19,237}{3397} = 5.66$	$\frac{12,806}{5759} = 2.22$	
B. Total Liabilities/Net Worth (2.5 times or less)	$\frac{6385}{53,026} = 1.2$	$\frac{67,413}{32,500} = 2.07$	
C. Tangible Net Worth (At least \$10 Million) [Net worth - intangibles such as goodwill]	$53,026 - 45,711 = 7,315$ $\approx 7,315,000$	$32,500 - 44,018 = -11$ < 0	
D. Fixed Assets Net of Depreciation (At least \$20 Million)	38,278,000	30,249,000	
E. Self-Bond Request/Tangible Net Worth (Maximum of 25%)	$.25 \times 7,315,000 = 1,828,750$		

Applicant should answer the following questions:

1. Has the operator been in continuous operation during the prior five years and submitted the prior five annual reports that summarize mining operations?	Yes _____ No _____ If no, how many years: _____
2. Has the operator furnished financial statements prepared by an independent certified public accountant in conformity with generally accepted accounting principles (audit or review opinion) for the years shown above?	Yes _____ No _____
3. Has the operator furnished unaudited financial statements for the recently completed period in the current year?	Yes _____ No _____
4. Does the operator have self-bonds with other governmental jurisdictions?	Yes _____ No _____ Identify the amount, if any: _____
5. Does the operator commit to maintain the financial criteria shown above for the self-bonding period, and submit future financial statements prepared by an independent CPA to the Division?	Yes _____ No _____

Unaudited



Monthly Reporting Package
As of September 30, 2009 and for the periods then ended

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DEC 21 2009
DIV. OF OIL, GAS & MINING

American Gilsonite Holding Company and Subsidiaries

(Unaudited in Thousands)
(Subject to final purchase accounting adjustments)

	2009 (unaudited)	September 30 2008 (unaudited)
Current assets:		
Cash	\$ 7,495	\$ 553
Accounts receivable	3,536	7,213
Inventory	6,275	4,127
Income tax receivable	1,062	-
Deferred income tax	-	94
Prepaid and other assets	868	820
Total current assets	19,237	12,806
Property, plant and equipment, net	38,278	30,249
Goodwill	45,711	44,068
Deferred income taxes	-	-
Customer list, net	11,413	11,290
Other assets	2,245	1,500
Total assets	\$ 116,883	\$ 99,914
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 317	\$ 1,468
Accrued expenses	2,378	2,531
Current portion of long term debt - CIT	425	1,100
Current portion of insurance premium financing	242	139
Income taxes payable	-	302
Other current liabilities	17	219
Total current liabilities	3,379	5,759
Long term liabilities		
Senior Debt	31,325	32,400
Subordinated Debt	14,783	14,745
Deferred tax liabilities	13,909	14,205
Other liabilities	462	305
Total liabilities	63,857	67,413
Stockholders' equity		
Common stock	-	-
Additional paid in capital	46,476	32,004
Retained earnings	6,550	496
Total stockholders' equity	53,026	32,500
Total liabilities and stockholders' equity	\$ 116,883	\$ 99,914

American Gilsonite Holding Company and Subsidiaries

Consolidated Statements of Income

(Unaudited in Thousands)
(Subject to final purchase accounting adjustments)

	September		Year to date	
	2009	2008	2009	2008
Sales	\$ 2,810	\$ 4,616	\$ 23,374	\$ 28,881
Sales adjustments	(34)	(8)	(145)	(93)
Net sales	2,776	4,608	23,228	28,788
Mining	426	975	4,767	5,888
Process plant	238	673	2,802	4,481
ER plant	196	255	1,624	1,955
Maintenance	70	59	541	467
Technical services	14	20	158	184
Health & safety	22	20	339	204
Other production costs	3	13	27	59
Drilling and exploration	6	50	119	304
Environmental compliance	8	21	49	109
Current reclamation	7	-	31	51
Change in product inventory	(22)	(49)	(1,853)	330
Cost of Sales	968	2,038	8,603	14,032
Gross margin	1,808	2,570	14,625	14,756
Gross margin %	65.1%	55.8%	63.0%	51.3%
Selling general and administrative	236	442	4,098	3,663
Operating margin	1,573	2,128	10,528	11,093
Other income	(1)	(1)	(12)	(20)
Depreciation and amortization	413	505	3,531	2,970
Depletion	29	38	203	233
Interest expense	344	448	3,260	2,939
Other financing fees	32	25	286	169
Transaction expenses	-	106	-	4,599
Management fees	42	54	397	338
Income taxes	196	193	726	1,293
Net income	\$ 517	\$ 760	\$ 2,135	\$ (1,430)

American Gilsonite Holding Company and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited in Thousands)
(Subject to final purchase accounting adjustments)

	September		Year to date	
	2009	2008	2009	2008
Cash provided by operating activities				
Net income (loss)	\$ 517	\$ 760	\$ 2,135	\$ (1,430)
Adjustments to reconcile net income (loss) from continuing operations to net cash provided by (used in) operations:				
Depreciation and amortization	413	505	3,531	2,970
Depletion	29	38	203	233
Deferred taxes	(3)	(5)	(10)	(24)
Amortization of deferred financing costs	30	24	267	151
PIK interest				207
FAS 143 liability accretion	2	1		13
Changes in operating assets and liabilities, net of effect of acquisitions:				
(Increase) decrease in accounts receivable	(245)	(396)	3,445	(2,449)
(Increase) decrease in inventory	77	7	(1,741)	(1,327)
(Increase) decrease in prepaid and other assets	109	90	145	(339)
Increase (decrease) in income taxes payable / receivable	191	(537)	71	420
Increase (decrease) in accounts payable	(31)	(124)	(1,231)	419
Increase (decrease) in accrued liabilities	540	677	(185)	1,597
Increase (decrease) in other liabilities	(191)	121	55	333
Net cash provided by (used in) operating activities	1,438	1,161	6,686	558
Cash flows from investing activities:				
Investment in purchased assets				(74,016)
Purchase of business assets, net of cash acquired	(111)	(468)	(13,495)	(3,108)
Investments in property plant and equipment		(68)	(1,446)	(68)
Increase (decrease) in investments	(111)	(536)	(15,149)	(77,192)
Net cash provided by (used in) investing activities				
Cash flows from financing activities:				
Capital contributions				32,004
Proceeds from issuance of debt				48,500
Debt issuance costs				(1,615)
Proceeds from (repayment on) issuance of insurance premium financing note	(81)	(34)	207	139
Repayments on long-term debt		(250)		(500)
Revolver borrowings (repayment)		(250)		-
Dividends paid to shareholders				(1,347)
Permitted Stock Issuance			13,472	
Net cash provided by (used in) financing activities	(81)	(534)	13,679	77,181
Net change in cash and cash equivalents	\$ 1,246	\$ 91	\$ 5,216	\$ 547
Cash and cash equivalents at beginning of period	\$ 6,249	\$ 462	\$ 2,279	\$ 6
Cash and cash equivalents at end of period	\$ 7,495	\$ 553	\$ 7,495	\$ 553
Cash interest paid	\$ 314	\$ 168	\$ 3,406	\$ 2,325
Cash taxes paid	\$ 8	\$ 737	\$ 615	\$ 1,132

American Gilsonte Holding Company and Subsidiaries

(Unaudited in Thousands except shares)
(Subject to final purchase accounting adjustment)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock		Stockholders' Equity
	Shares	Amount	Shares	Amount			Shares	Amount	
Balance - January 1, 2008	1,067	\$ 1,067	56,186	\$ 56	\$ 8,140	\$ 2,094	(6,586)	\$ (7)	\$ 11,350
Dividends						(1,350)			(1,350)
Net income (loss)						(1,925)			(1,925)
Redemption of Shares	(1,067)	(1,067)	(56,186)	(56)	(8,140)	1,181	6,586	7	(8,075)
Initial capital contribution			64,027	-	32,004				32,004
Net income (loss)						(1,513)			(1,513)
Balance - March 31, 2008	-	-	64,027	-	32,004	(1,513)	-	-	30,491
Net income						509			509
Balance - June 30, 2008	-	-	64,027	0	\$ 32,004	(1,004)	-	-	31,000
Net income						1,500			1,500
Balance - September 30, 2008	-	-	64,027	\$ 0	\$ 32,004	\$ 496	-	-	\$ 32,500
Balance - January 1, 2009	-	\$ -	65,233	\$ 0	\$ 33,004	0	\$ 4,414	-	\$ 37,418
Net income						1,412			1,412
Balance - March 31, 2009	-	-	65,233	0	33,004	5,826	-	-	38,830
Net income						335			335
Balance - June 30, 2009	-	-	65,233	0	33,004	6,161	-	-	39,165
Permitted Stock Issuance			13,476	0	13,472				13,472
Net income						389			389
Balance - September 30, 2009	-	\$ -	78,709	\$ 0	\$ 46,476	\$ 6,550	-	\$ -	\$ 53,026